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C O N F I D E N T I A L SECTION 01 OF 02 VILNIUS 000637

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STATE FOR EUR/NB, EB/CBA, AND EB/ESC

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TAGS: ENRG ECON PREL PGOV LH PL SW

SUBJECT: LITHUANIA SEEKS TO LINK UP WITH POLISH AND SWEDISH POWER GRIDS

REF: VILNIUS 549

Classified By: Economic Officer Scott Woodard for reasons 1.4 b and d

¶1. (C) SUMMARY: Plans to link Lithuania to the electricity grids of Poland and Sweden are moving forward, according to several well-placed sources. These links would complement the nearly complete Estonia-Finland power bridge and hook the Baltics into Western Europe's electricity grid for the first time. These high-voltage links are an integral part of the GOL's wish to build a new nuclear reactor after it closes its current Soviet-designed reactor in 2009. Ultimately, however, whether the two projects ever make it off the drawing board will depend on sufficient financing, which in both cases has yet to materialize. END SUMMARY.

THE BALTICS AS AN ENERGY ISLAND, FOR NOW

¶2. (SBU) The Baltics currently have no connection to the electricity grids of countries that were not part of the former USSR. This will change later this year with the completion of the Estonia-Finland 350 MW power cable ("Estlink"). Estlink will allow the Baltics, for the first time, to sell electricity beyond the borders of the former USSR. Dr. Jonas Kazlauskas, Deputy Director of the Ministry of Economy's Energy Agency, told us June 21 that Estlink's impending completion highlights the absence of a similar line connecting Lithuania with a non-former-USSR country, like Poland or Sweden. Such a connection, he said, would complete the "Baltic Ring," the interconnection of the Baltic electricity grid with Scandinavia and Western Europe.

LITHUANIA-SWEDEN UNDERSEA CABLE

¶3. (SBU) Kazlauskas said that Lithuania's plan to build a high-capacity (1000 MW) underwater link with Sweden (SWINDLIT) is proceeding. He told us that Lithuania has spent the past 18 months discussing this plan with Sweden. If all goes well, the project could be complete by 2012. Dr. Anzelmas Bacauskas, Chief of Lietuvos Energija's (LE) Strategy Division, told us on June 22 that LE and Svenska Kraftnat (SvK) are finalizing the terms of a feasibility study for SWINDLIT and will announce a public tender to conduct this study soon. (LE is 96 percent state-owned and operates the eastern half of Lithuania's electricity grid. SvK is the state-owned operator of Sweden's grid.)

¶4. (SBU) Bacauskas said that the project would cost approximately EUR 400 million (USD 501 million). Without

specifying who would pay for the project, he emphasized that it was commercially viable because the Scandinavian countries were not increasing their generation capacity even though their consumers required increasing amounts of electricity. He said that in dry years, especially, Scandinavian producers were already having difficulty meeting demand, and hinted that some large Scandinavian industrial concerns may be willing to finance the Lithuania-Sweden undersea link.

LITHUANIA-POLAND POWER BRIDGE

15. (SBU) Kazlauskas was cautiously optimistic on the outlook for a 1000 MW power bridge with Poland, emphasizing that the two countries had discussed this project off and on for more than a decade. He said, however, that media reports of renewed interest in this project were accurate and that he expected new discussions with the Poles as early as July.

16. (C) The DCM of the Polish Embassy in Vilnius shared Kazlauskas's cautious optimism and told us on June 22 that President Adamkus and President Kaczynski could make an official announcement on the power bridge in September, if this summer's negotiations go well.

17. (SBU) Kazlauskas said that the Lithuania-Poland power bridge would cost about EUR 300 million (USD 376 million) and take up to eight years to complete. The engineering and construction, he said, will not take long, but the power bridge will pass through an environmentally sensitive area and through pieces of land owned by many different owners, which will complicate the legal process of acquiring the necessary land. Bacauskas estimated that the power bridge

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could cost up to EUR 434 million, some of which could be paid for by the EU's allotment of EUR 143 million (USD 179 million) for the decommissioning of the Ignalina Nuclear Power Plant (INPP).

COMMENT

18. (SBU) The plans for these high-voltage connections complement the GOL's desire to build a new nuclear power plant once Lithuania's Soviet-designed reactor in Ignalina shuts down in 2009 (reftel). Not only do the Lithuanians see a new reactor as a way to reduce energy dependence on Russia, but also as a commercial opportunity to sell electricity to power-hungry Scandinavian and Western European markets that find it difficult to increase their own power-generation capabilities. The devil will lie in the financial details, however. The hundreds of millions of dollars necessary to construct these projects has not materialized, and will not simply appear because the GOL so wishes. If these projects prove financially feasible, however, they may provide commercial opportunities for U.S. companies. We will work with the GOL to ensure transparent and competitive bidding processes that fairly consider all U.S. bids.

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